

## Canada: GDP pulled back in February

By Kyle Dahms

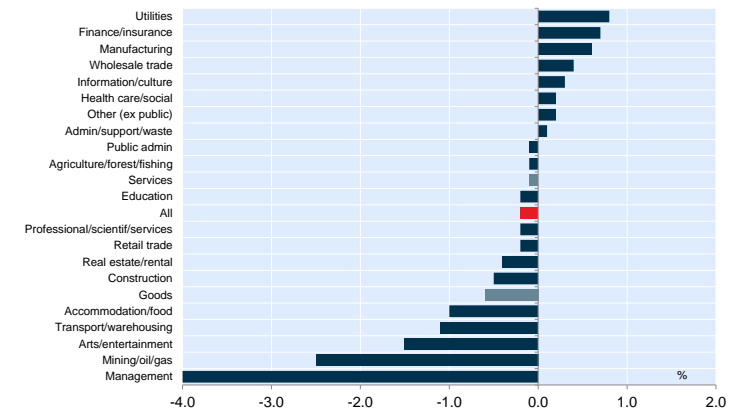
### Highlights:

- Canada's real GDP decreased by 0.2% in February following a 0.4% advance in January (unrevised). This was two ticks below both the consensus estimate and Statistics Canada's preliminary estimate.
- Production slumped in goods-producing industries (-0.6%), while service-producing industries edged down (-0.1%) in the month.
- On the goods side, mining/oil/gas (-2.5%), construction (-0.8%) and agriculture (-0.1%) were down during the month while utilities (+0.8%) and manufacturing (+0.6%) offset some of the decline. On the services side, the worst performing sectors were transportation (-1.1%) and real estate/rental/leasing (-0.4%), while finance/insurance (+0.7%) partially offset the decline.
- Overall, 12 sectors of the 20 sectors tracked recorded a decrease in the month. Industrial production pulled back 0.6% in the month, following a decent showing in the prior month.
- Finally, Statistics Canada's preliminary estimate showed that GDP could have moved up one tick in March.

The Canadian economy was weaker than expected in February, declining by 0.25%, its worst performance in 26 months (considering decimals) as a majority of sectors worsened during the month (see top chart). The lackluster result for real GDP is mainly due to a significant decrease in the goods sector, with three of the five subsectors in contraction. The largest detractor was mining/oil/gas as oil sand extraction posted its worst month in a little over a year. That said, mining/quarrying was nary better as it reversed its prior increase. The construction sector saw its first decline in four months, as activity moderated in the month especially for residential building construction (-0.9%). According to Statistics Canada, this reflected "lower home alterations and improvements activity coupled with lower construction of single-family and row houses". Indeed, while the housing sector performed well in the second half of 2024 as interest rates moderated, the same cannot be said for the beginning of 2025. Home sales are substantially lower, and housing-related retail spending has pulled back as of the latest report. Uncertainty stemming from our southern neighbour appears to have soured the mood for major outlays. Looking at services, perhaps unsurprisingly, one of the main detractors was the real estate/rental/leasing subsector which saw its largest decline since April 2022. Real estate specific activity (real estate offices and brokerages) posted a third consecutive decline with the last month signaling a sharp drop-off (-10.4%). This tracks with the aforementioned decline in housing transactions. Looking ahead, the preliminary estimate for March suggests that growth could have edged up by one tick. Taking that into account, on a quarterly basis, industry growth could have registered at 1.5% annualized in the first quarter of the year following a 1.8% increase in the last quarter of 2024 (see bottom chart). This decent start to the year is unlikely to be propagated for the remainder as uncertainty continues to reign. Unless tensions with our southern neighbour are significantly reduced, we continue to believe that consumer and business confidence will remain very low. As such, this scenario should translate into lower outlays and reduced investment. Moreover, the potential damage to the labour market is palpable and may have already started according to the March LFS report. All told, our view remains that we expect a weakening of the economy in the second and third quarters.

### Canada: A majority of sectors were down in the month

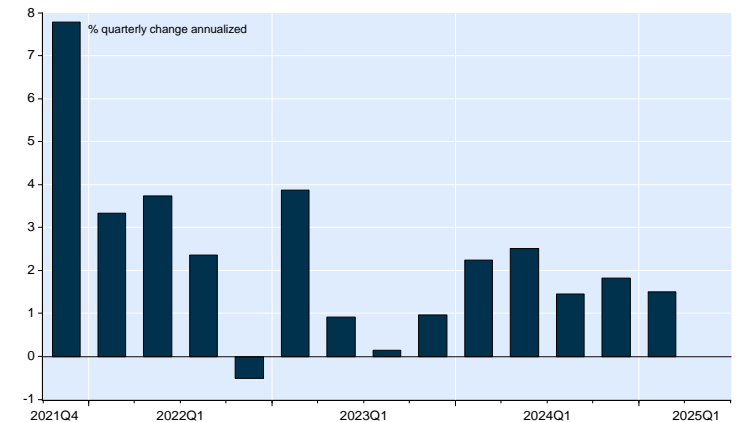
Monthly % change by industry (February 2025)



NBC Economics and Strategy (data via Statistics Canada)

### Canada: GDP expanded in the first quarter

Annualized change in quarterly GDP growth, March preliminary estimate for Q1



NBC Economics and Strategy (data via Statistics Canada)



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